

**TOWN OF ARLINGTON, TENNESSEE**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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## **INTRODUCTORY SECTION**

**TOWN OF ARLINGTON, TENNESSEE**  
**LIST OF PRINCIPAL OFFICIALS**  
June 30, 2012

**ELECTED OFFICIALS**

Mayor  
Vice Mayor  
Alderman  
Alderman  
Alderman  
Alderman  
Alderman

Mike Wissman  
Harry McKee  
Glenn Bascom, II  
Oscar Brooks  
Gerald McGee  
Brian Thompson  
Jeff McKee

**APPOINTED OFFICIALS**

Recorder  
Town Superintendent

Catherine Durant  
Ed Haley

## **FINANCIAL SECTION**



Certified Public Accountants

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## Independent Auditor's Report

Honorable Mike Wissman, Mayor  
Members of the Board of Aldermen  
Town of Arlington, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Arlington, Tennessee (Town), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Arlington, Tennessee, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and state street aid fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Arlington's financial statements. The accompanying financial information listed as other supplementary information in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PLLC". The signature is written in a cursive style with a large, stylized initial 'A'.

Jackson, Tennessee  
November 30, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Arlington, we offer readers of the Town of Arlington's financial statements this narrative overview and analysis of the financial activities of the Town of Arlington for the fiscal year ended June 30, 2012. Comparative analysis of key elements of total governmental funds and total enterprise funds has been provided. A prior year comparative analysis of government-wide data has been provided.

### FINANCIAL HIGHLIGHTS

- The assets of the Town of Arlington exceeded its liabilities at the close of the most recent fiscal year by \$61.44 million (net assets). Of this amount, \$16.99 million (unrestricted net assets) may be used to meet the Town of Arlington's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Town of Arlington's general fund reported an ending fund balance of \$10.00 million, an increase of \$1.41 million in comparison with the prior year. Of the total fund balance, \$9.83 million is available for spending at the Town of Arlington's discretion (unassigned fund balance).
- The Town of Arlington's total bonds payable decreased by \$603 thousand during the current fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Arlington's basic financial statements. The Town's basic financial statements are comprised of the following components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements
4. This report also contains required and other supplementary information in addition to the basic financial statements themselves

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Arlington's finances, in a manner similar to a private-sector business.

- The Statement of Net Assets presents information on all of the Town of Arlington's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Arlington is improving or deteriorating.
- The Statement of Activities presents information showing how the Town of Arlington's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and compensated absences).

Both of the government-wide financial statements distinguish functions of the Town of Arlington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Arlington include general government, public safety, public works, welfare, recreation, and debt service. The business-type activities of the Town of Arlington include Public Utilities (sewer). The government-wide financial statements can be found on pages 10 and 11 of this report.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Arlington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Arlington can be divided into two categories: governmental funds and proprietary funds.

*Governmental funds* - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the Government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town of Arlington's near-term financing decisions. Both the Balance Sheet — Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements and reconciliations can be found on pages 12 through 15 of this report.

Information is presented separately in the Balance Sheet — Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds for the General Fund and State Street Aid Fund, which are considered to be major funds.

The Town of Arlington adopts an annual appropriated budget for each governmental fund. Budgetary comparisons of the major fund statements have been provided on pages 16 through 21 of this report for the General Fund and State Street Aid Fund to demonstrate compliance with the budget.

*Proprietary funds* - Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. The Town of Arlington uses an enterprise fund to account for the Sewer Department.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund, which is considered a major fund of the Town of Arlington. The basic proprietary fund financial statements can be found on pages 22 through 25 of this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 37 of this report.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Arlington's ability to meet its projected budget.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

*Statement of Net Assets* - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Arlington, assets exceeded liabilities by \$61.44 million at the close of the most recent fiscal year. Sixty-three percent (63%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that are still outstanding. The Town of Arlington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Arlington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 18,384,926	\$ 16,079,789	\$ 7,665,320	\$ 6,857,057	\$ 26,050,246	\$ 22,936,846
Capital assets	<u>28,456,443</u>	<u>24,894,001</u>	<u>20,174,770</u>	<u>20,175,230</u>	<u>48,631,213</u>	<u>45,069,231</u>
Total assets	<u>46,841,369</u>	<u>40,973,790</u>	<u>27,840,090</u>	<u>27,032,287</u>	<u>74,681,459</u>	<u>68,006,077</u>
Long-term liabilities	705,916	674,361	9,119,000	9,749,000	9,824,916	10,423,361
Other liabilities	<u>2,778,986</u>	<u>2,623,106</u>	<u>636,647</u>	<u>608,316</u>	<u>3,415,633</u>	<u>3,231,422</u>
Total liabilities	<u>3,484,902</u>	<u>3,297,467</u>	<u>9,755,647</u>	<u>10,357,316</u>	<u>13,240,549</u>	<u>13,654,783</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	28,456,443	24,894,001	10,425,770	9,823,230	38,882,213	34,717,231
Restricted street aid	5,565,762	4,742,454	-	-	5,565,762	4,742,454
Restricted for development	149,400	169,400	-	-	149,400	169,400
Unrestricted	<u>9,385,302</u>	<u>7,870,468</u>	<u>7,658,673</u>	<u>6,851,741</u>	<u>17,043,975</u>	<u>14,722,209</u>
<b>Total net assets</b>	<b><u>\$ 43,556,907</u></b>	<b><u>\$ 37,676,323</u></b>	<b><u>\$ 18,084,443</u></b>	<b><u>\$ 16,674,971</u></b>	<b><u>\$ 61,641,350</u></b>	<b><u>\$ 54,351,294</u></b>

An additional portion of the Town of Arlington's net assets (\$5.57 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets representing unrestricted net assets (\$16.99 million) may be used to meet the Town of Arlington's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the Town of Arlington is able to report positive balances in all three categories of net assets, both for the Town of Arlington as a whole, as well as for its total governmental and total business-type activities.

*Statement of Activities* – Revenues in governmental activities exceeded expenses by \$5.68 million. In the business-type activities, revenues exceeded expenses by \$1.41 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 953,991	\$ 927,250	\$ 1,916,586	\$ 1,823,677	\$ 2,870,577	\$ 2,750,927
Operating grants and contributions	367,504	444,836	-	-	367,504	444,836
Capital grants and contributions	5,076,247	5,056,019	615,795	585,365	5,692,042	5,641,384
<b>General revenues:</b>						
Property taxes	2,984,532	2,820,060	-	-	2,984,532	2,820,060
Other taxes	2,605,259	2,087,231	-	-	2,605,259	2,087,231
Other sources	151,518	1,261,648	72,966	98,853	224,484	1,360,501
<b>Total revenues</b>	<b><u>12,139,051</u></b>	<b><u>12,597,044</u></b>	<b><u>2,605,347</u></b>	<b><u>2,507,895</u></b>	<b><u>14,744,398</u></b>	<b><u>15,104,939</u></b>
<b>Expenses:</b>						
General government	2,125,528	1,780,819	-	-	2,125,528	1,780,819
Public safety	1,149,389	1,117,662	-	-	1,149,389	1,117,662
Highway and streets	1,245,700	1,433,016	-	-	1,245,700	1,433,016
Public works	755,313	740,573	-	-	755,313	740,573
Sanitation collection	785,456	743,730	-	-	785,456	743,730
Culture and recreation	396,958	398,554	-	-	396,958	398,554
Sewer	-	-	1,195,875	1,153,538	1,195,875	1,153,538
<b>Total expenses</b>	<b><u>6,458,344</u></b>	<b><u>6,214,354</u></b>	<b><u>1,195,875</u></b>	<b><u>1,153,538</u></b>	<b><u>7,654,219</u></b>	<b><u>7,367,892</u></b>
<b>Increase in net assets</b>	<b><u>5,680,707</u></b>	<b><u>6,382,690</u></b>	<b><u>1,409,472</u></b>	<b><u>1,354,357</u></b>	<b><u>7,090,179</u></b>	<b><u>7,737,047</u></b>
Net assets - beginning	37,676,323	31,689,182	16,674,971	15,320,614	54,351,294	47,009,796
Prior period adjustment	-	(395,549)	-	-	-	(395,549)
Net assets - beginning - restated	<u>37,676,323</u>	<u>31,293,633</u>	<u>16,674,971</u>	<u>15,320,614</u>	<u>54,351,294</u>	<u>46,614,247</u>
<b>Net assets - ending</b>	<b><u>\$ 43,357,030</u></b>	<b><u>\$ 37,676,323</u></b>	<b><u>\$ 18,084,443</u></b>	<b><u>\$ 16,674,971</u></b>	<b><u>\$ 61,441,473</u></b>	<b><u>\$ 54,351,294</u></b>

### COMMENTS ON FUND FINANCIAL STATEMENTS

As noted earlier, the Town of Arlington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds* - The focus of the Town of Arlington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund accounts for approximately 64.66% of governmental fund revenues. Accordingly this discussion will focus on the general fund. General fund balance was \$10.00 million at the end of the current fiscal year. Of that balance, \$9.83 million is available to meet the day-to-day needs of the Town.

Revenues in the general fund were up from the previous year by approximately \$673 thousand. The most significant changes in revenues and other financing sources in the general fund were:

- Real Property Taxes increased by \$291 thousand.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- Public Utility Taxes increased by \$15 thousand.
- Local Sales Tax increased by \$359 thousand.
- State-Shared sales taxes increased by \$127 thousand.
- State Income Tax decreased by \$58 thousand.
- Interest Earned decreased by \$15 thousand.

All other revenues were within reasonable variances from last year. A budget comparison statement has been provided to demonstrate compliance with the budget.

*Proprietary funds* - The Town of Arlington's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the proprietary fund at the end of the year amounted to \$7.66 million. The total growth in net assets for this fund was \$1.41 million.

### GENERAL FUND BUDGETARY HIGHLIGHTS

#### Final Budgeted and Actual Amounts

Actual revenues and other financing sources were over the budgeted amounts by \$951 thousand. Significant variances are as follows:

- Local sales taxes were up \$383 thousand.
- Real property taxes were up \$204 thousand.
- Impact fees were up \$72 thousand.
- Intergovernmental (state shared taxes) were up \$176 thousand.

Actual expenditures were under the final budgeted amount by \$405 thousand. Significant variances are as follows:

- General Government was under by \$194 thousand.
- Public Safety was under by \$37 thousand.
- Public Works was under by \$121 thousand
- Parks & Library and Senior Center were under by \$53 thousand

### CAPITAL ASSET AND DEBT ADMINISTRATION

*Capital Assets* - At the end of fiscal year 2012, the Town had invested \$48.63 million net of accumulated depreciation in a variety of capital assets and infrastructure. Infrastructure was valued at \$19.52 million net of accumulated depreciation. Assets accounted for under this approach include improvements to streets that the Town of Arlington is responsible for maintaining.

*Long-term debt* - At the end of the current fiscal year, the Town of Arlington had total debt outstanding of \$9.75 million. Of this amount, \$9.75 million comprises debt backed by the full faith and credit of the Town of Arlington.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The economic outlook for the country and this region continues to be one of slow growth, and is being closely monitored. Arlington will again conservatively project revenues in the coming year.
- Arlington will be conducting a special census in 2013. It is projected that the Town's population will be approximately 12,300 residents, an increase of 783 residents above the 2010 US Census population of 11,517. This will lead to an increase in State Shared tax dollars for which the Town will be eligible.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

- Continued infrastructure improvements, including the opening of a portion of Milton Wilson Boulevard, anticipated construction of an additional phase of Milton Wilson Boulevard, and improvements to the sewer infrastructure will have a positive impact on the ability to provide services and connectivity to lands otherwise limited in accessibility. These lands will be optimal for residential and non-residential development, and will help to increase the Town's tax base.
- New residential housing permits have held steady for the last 2 years with 80 permits per year. It is anticipated that this trend will continue next year. The inventory of vacant residential lots is currently at an 18-24 month threshold of inventory. A 32-lot single-family residential subdivision has been approved.
- Several commercial developments are currently under construction or have been approved for construction and will also bring increased revenues for the Town. These include Arlington Pet Hospital, Raleigh Tire Center and Car Wash USA. During the last year the Town has seen the opening of Sonic Drive-in and Ranger Pumps.
- Subsequent to June 30, 2013 the Town of Arlington electorate approved creation of a municipal school system to operate within the corporate boundaries of the Town.

All of these factors were considered in preparing the Town of Arlington's budget for the 2012/2013 fiscal year and will aid in the 2013/2014 budget preparation.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Arlington's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Town of Arlington's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Recorder, Town of Arlington, 5854 Airline Road, P.O. Box 507, Arlington, TN 38002.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
June 30, 2012

	<b>Primary Government</b>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 8,708,989	\$ 3,558,972	\$ 12,267,961
Investments	6,078,839	3,850,009	9,928,848
Receivables:			
Interest	2,538	1,108	3,646
Taxes (net of allowance for uncollectibles of \$41,251)	2,915,752	-	2,915,752
Accounts	54,951	283,311	338,262
Due to (from) other funds	71,413	(71,413)	-
Intergovernmental - nongrant	412,679	-	412,679
Grants	140,328	-	140,328
Unamortized bond cost	-	43,333	43,333
Capital assets not being depreciated:			
Land	1,372,303	231,762	1,604,065
Construction in process	3,974,247	303,483	4,277,730
Capital assets net of accumulated depreciation:			
Buildings and improvements	3,201,034	-	3,201,034
Machinery and equipment	386,293	-	386,293
Sewer plant	-	19,639,525	19,639,525
Infrastructure	19,522,566	-	19,522,566
Total assets	<u>46,841,932</u>	<u>27,840,090</u>	<u>74,682,022</u>
<b>Liabilities</b>			
Accounts payable	4,102	6,647	10,749
Deferred property taxes	2,774,884	-	2,774,884
Long-term debt			
Due within one year	-	630,000	630,000
Due in more than one year	-	9,119,000	9,119,000
Accrued annual leave - long-term	62,964	-	62,964
Accrued landfill closing and postclosing costs	642,952	-	642,952
Total liabilities	<u>3,484,902</u>	<u>9,755,647</u>	<u>13,240,549</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	28,456,443	10,425,770	38,882,213
Restricted for state street aid	5,565,762	-	5,565,762
Unrestricted	9,334,825	7,658,673	16,993,498
Total net assets	<u>\$ 43,357,030</u>	<u>\$ 18,084,443</u>	<u>\$ 61,441,473</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 2,125,528	\$ 90,170	\$ 538	\$ 5,265	\$ (2,029,555)	\$ -	\$ (2,029,555)
Public safety	1,149,389	7,428	-	-	(1,141,961)	-	(1,141,961)
Highways and streets	1,245,700	-	364,906	5,070,982	4,190,188	-	4,190,188
Public works	755,313	-	-	-	(755,313)	-	(755,313)
Sanitation collection	785,456	835,588	-	-	50,132	-	50,132
Parks and recreation	396,958	20,805	2,060	-	(374,093)	-	(374,093)
Total governmental activities	<u>6,458,344</u>	<u>953,991</u>	<u>367,504</u>	<u>5,076,247</u>	<u>(60,602)</u>	<u>-</u>	<u>(60,602)</u>
Business-type activities							
Sewer	<u>1,195,875</u>	<u>1,916,586</u>	<u>-</u>	<u>615,795</u>	<u>-</u>	<u>1,336,506</u>	<u>1,336,506</u>
Total primary government	<u>\$ 7,654,219</u>	<u>\$ 2,870,577</u>	<u>\$ 367,504</u>	<u>\$ 5,692,042</u>	<u>\$ (60,602)</u>	<u>\$ 1,336,506</u>	<u>\$ 1,275,904</u>
<b>General revenues</b>							
Property taxes - levied for general government					2,984,532	-	2,984,532
Payments in lieu of taxes - other governments					197,854	-	197,854
Sales taxes					1,939,178	-	1,939,178
Franchise taxes					82,257	-	82,257
Alcoholic beverage taxes					291,276	-	291,276
Business taxes					94,694	-	94,694
Licenses and permits					36,763	-	36,763
State income and excise taxes					2,149	-	2,149
Interest, penalties and court costs					28,368	-	28,368
Miscellaneous					-	1,594	1,594
Unrestricted interest income					84,238	71,372	155,610
Total general revenues					<u>5,741,309</u>	<u>72,966</u>	<u>5,814,275</u>
<b>Changes in net assets</b>					<u>5,680,707</u>	<u>1,409,472</u>	<u>7,090,179</u>
Net assets - beginning					<u>37,676,323</u>	<u>16,674,971</u>	<u>54,351,294</u>
Net assets - ending					<u>\$ 43,357,030</u>	<u>\$ 18,084,443</u>	<u>\$ 61,441,473</u>

*The accompanying notes are an integral part of the financial statements.*



**TOWN OF ARLINGTON, TENNESSEE**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
June 30, 2012

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 5,931,316	\$ 2,777,673	\$ 8,708,989
Investments	3,482,934	2,595,905	6,078,839
Receivables:			
Interest	2,169	369	2,538
Taxes (net of allowance for uncollectibles of \$41,251)	2,915,752	-	2,915,752
Accounts - other	54,951	-	54,951
Due from other funds	71,413	53,008	124,421
Intergovernmental - nongrant	410,098	2,581	412,679
Grant receivable	-	140,328	140,328
<b>Total assets</b>	<b><u>12,868,633</u></b>	<b><u>5,569,864</u></b>	<b><u>18,438,497</u></b>
<b>Liabilities and Fund Balances</b>			
Liabilities			
Accounts payable	-	4,102	4,102
Due to other funds	53,008	-	53,008
Deferred revenue - property taxes	2,836,388	-	2,836,388
Total liabilities	<u>2,889,396</u>	<u>4,102</u>	<u>2,893,498</u>
Fund balances			
Restricted for state street aid	-	5,565,762	5,565,762
Assigned:			
Impact fees	149,400	-	149,400
Unassigned	<u>9,829,837</u>	<u>-</u>	<u>9,829,837</u>
Total fund balances	<u>9,979,237</u>	<u>5,565,762</u>	<u>15,544,999</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 12,868,633</u></b>	<b><u>\$ 5,569,864</u></b>	<b><u>\$ 18,438,497</u></b>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**RECONCILIATION OF STATEMENT OF NET ASSETS-GOVERNMENTAL FUNDS**  
June 30, 2012

Amounts reported for the governmental activities in the statement of net assets (Page 10) are different because:

Fund balances - total governmental funds (Page 12)	\$ 15,544,999
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds	28,456,443
Receivables not available to pay for current expenditures, therefore, are deferred in the funds (property taxes)	61,504
Long-term liabilities, including notes, and leases payable, are not due in the current period and, therefore, are not reported in the funds	<u>(705,916)</u>
Net assets of governmental activities (Page 10)	<u>\$ 43,357,030</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
For the Year Ended June 30, 2012

	General Fund	State Street Aid Fund	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 4,735,806	\$ -	\$ 4,735,806
Licenses and permits	36,763	-	36,763
Intergovernmental	1,052,314	3,775,168	4,827,482
Charges for services	899,603	-	899,603
Other	262,311	42,693	305,004
<b>Total revenues</b>	<u>6,986,797</u>	<u>3,817,861</u>	<u>10,804,658</u>
<b>Expenditures</b>			
Current			
General government	1,230,345	-	1,230,345
Public safety	1,167,082	-	1,167,082
Highways and streets	835,599	4,115,568	4,951,167
Sanitation collection	816,865	-	816,865
Parks and recreation	404,351	-	404,351
<b>Total expenditures</b>	<u>4,454,242</u>	<u>4,115,568</u>	<u>8,569,810</u>
Excess (deficiency) of revenues over (under) expenditures	2,532,555	(297,707)	2,234,848
Other Financing Sources (Uses)			
Operating transfers in	53,615	1,121,015	1,174,630
Operating transfers out	(1,174,630)	-	(1,174,630)
Total other financing sources (uses)	<u>(1,121,015)</u>	<u>1,121,015</u>	<u>-</u>
<b>Net changes in fund balances</b>	<u>1,411,540</u>	<u>823,308</u>	<u>2,234,848</u>
Fund balances - beginning	<u>8,567,697</u>	<u>4,742,454</u>	<u>13,310,151</u>
Fund balances - ending	<u>\$ 9,979,237</u>	<u>\$ 5,565,762</u>	<u>\$ 15,544,999</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

June 30, 2012

Amounts reported for the governmental activities in the statement of activities (Page 11) are different because:

Excess (deficiency) of revenues over (under) expenditures - total governmental funds (Page 14)	\$ 2,234,848
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period. This is the amount by which capital outlays exceeded depreciation in the current period.	2,089,679
Contributed capital assets considered as revenue on the statement of activities but are not considered revenues in the funds. This amount represents infrastructure donated to the Town by outside parties.	1,472,764
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (property taxes).	(138,373)
Reduction in accrual for landfill liability	31,409
Increase in accrual for accrued annual leave	<u>(9,620)</u>
Change in net assets of governmental activities (Page 11)	<u>\$ 5,680,707</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended June 30, 2012

Revenues	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Taxes:				
Real property taxes	\$ 2,395,000	\$ 2,488,000	\$ 2,691,603	\$ 203,603
Personal property taxes	177,500	190,000	190,162	162
Public utility taxes	226,100	241,100	241,140	40
Interest and penalties	17,000	17,000	28,368	11,368
In lieu of tax payments -				
Other governments	60,950	60,950	64,791	3,841
Local sales tax	675,000	775,000	1,157,921	382,921
Wholesale beer tax	200,000	200,000	215,613	15,613
Wholesale liquor tax	54,000	54,000	63,951	9,951
Franchise taxes	74,000	74,000	82,257	8,257
Total taxes	<u>3,879,550</u>	<u>4,100,050</u>	<u>4,735,806</u>	<u>635,756</u>
Licenses and permits:				
Licenses and permits	22,300	22,300	24,510	2,210
Planning commission submittals	5,000	5,000	5,328	328
Excavating permits	2,000	2,000	6,925	4,925
Total licenses and permits	<u>29,300</u>	<u>29,300</u>	<u>36,763</u>	<u>7,463</u>
Intergovernmental:				
Federal grants	-	537	5,801	5,264
TVA in lieu of tax	109,000	109,000	133,063	24,063
Business tax	50,000	70,000	94,694	24,694
State sales tax	575,000	625,000	781,257	156,257
State income tax	10,000	10,000	-	(10,000)
State beer tax	4,000	4,000	5,653	1,653
State alcoholic beverage tax	5,000	5,000	6,059	1,059
State petroleum special fee	20,800	20,800	23,638	2,838
State telecommunications sales tax	780	780	715	(65)
State excise tax	2,000	1,400	1,434	34
Total intergovernmental	<u>776,580</u>	<u>846,517</u>	<u>1,052,314</u>	<u>205,797</u>
Charges for Services:				
Community development fees	-	1,600	1,600	-
Street light fees	-	47,987	47,986	(1)
Inspection fees	-	1,200	1,200	-
Park and recreation fees	12,500	12,500	13,229	729
Total charges for services	<u>12,500</u>	<u>63,287</u>	<u>64,015</u>	<u>728</u>
Other:				
Other	13,500	13,000	18,275	5,275
Rent	7,250	7,250	8,395	1,145
City Court revenue	-	100	228	128
Interest earned	60,000	60,000	81,440	21,440
Insurance recovery	-	3,860	3,860	-
Impact fees	50,000	56,000	127,625	71,625
Library fines	16,000	16,000	17,630	1,630

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)**  
**GENERAL FUND**

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Contributions	\$ -	\$ 2,060	\$ 2,060	\$ -
Total other	146,750	158,270	259,513	101,243
<b>Total revenues</b>	<b>4,844,680</b>	<b>5,197,424</b>	<b>6,148,411</b>	<b>950,987</b>
<b>Expenditures</b>				
Current expenditures:				
General government:				
Salaries	385,000	385,000	359,574	25,426
OASI	34,000	34,000	31,173	2,827
Hospital and health insurance	42,000	25,000	24,648	352
Workmen's compensation	3,600	2,000	1,955	45
Other employer contributions	21,500	25,000	25,545	(545)
Board and committee members	61,000	61,000	61,000	-
Elections	16,000	16,000	16,590	(590)
Contractual services	43,500	43,500	41,244	2,256
Postage	4,200	4,200	3,025	1,175
Messenger and delivery services	3,000	3,000	1,936	1,064
Publication of legal notices	7,000	7,000	8,815	(1,815)
Memberships and registration fees	6,000	6,000	2,695	3,305
Public relations	14,500	14,500	10,583	3,917
Utility services	22,000	28,000	17,233	10,767
Telephone	6,000	8,000	8,888	(888)
Legal services	130,000	170,000	119,544	50,456
Accounting and auditing services	15,000	15,000	12,990	2,010
Architectural and engineering services	100,000	75,000	60,220	14,780
Planning services	80,000	40,000	30,000	10,000
Web site services	4,500	9,500	6,483	3,017
Data processing services	8,000	10,000	9,961	39
Other professional services	104,000	104,000	75,889	28,111
Repair and maintenance services	4,000	4,000	2,380	1,620
Repair and maintenance of buildings	20,000	150,000	18,270	131,730
Travel	5,000	5,000	2,445	2,555
Collection fees	20,000	20,000	21,004	(1,004)
Sundry	1,500	1,500	1,908	(408)
Operating supplies	20,700	20,700	13,255	7,445
Off site record storage	3,000	3,000	2,974	26
Insurance on buildings	2,000	2,600	2,594	6
Insurance - liability	9,000	9,000	9,110	(110)
Prizes and awards	500	500	130	370
Capital outlay	-	75,300	218,846	(143,546)
Machinery and equipment rent	7,000	7,000	7,438	(438)
Other machinery and equipment	20,000	40,144	-	40,144
Total general government	<b>\$ 1,223,500</b>	<b>\$ 1,424,444</b>	<b>\$ 1,230,345</b>	<b>\$ 194,099</b>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)**  
**GENERAL FUND**

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Budget		
Public safety				
Fire protection and control:				
Salaries	\$ 675,000	\$ 685,000	\$ 685,497	\$ (497)
OASI	52,000	52,000	49,055	2,945
Hospital and health insurance	83,000	83,000	71,388	11,612
Workmens compensation	18,000	11,000	10,892	108
Employee education and training	1,000	3,000	4,946	(1,946)
Other employer contributions	35,000	42,000	45,169	(3,169)
Volunteer firemen	3,000	3,000	2,670	330
Membership fees, dues	4,000	4,000	3,504	496
Utility services	16,000	16,000	14,911	1,089
Telephone	5,000	6,500	6,892	(392)
Medical and dental	150,000	150,000	148,960	1,040
Repair and maintenance	60,000	67,700	46,119	21,581
Travel	3,000	3,000	3,042	(42)
Operating supplies	10,500	10,500	9,116	1,384
Clothing and uniforms	10,000	10,000	6,664	3,336
Gas, oil and diesel	20,500	20,500	18,819	1,681
Insurance-building and liability	10,700	9,500	9,433	67
Insurance-vehicles and equipment	5,000	3,500	3,418	82
Capital outlay	-	-	24,391	(24,391)
Machinery and equipment rent	2,200	2,200	2,103	97
Other machinery and equipment	20,000	20,000	-	20,000
	<u>1,183,900</u>	<u>1,202,400</u>	<u>1,166,989</u>	<u>35,411</u>
Fire fighting:				
Supplies	2,050	2,050	93	1,957
	<u>1,185,950</u>	<u>1,204,450</u>	<u>1,167,082</u>	<u>37,368</u>
Highway and streets:				
Salaries	460,000	460,000	377,103	82,897
OASI	35,000	35,000	28,682	6,318
Hospital and health insurance	58,000	58,000	36,071	21,929
Workmens compensation	20,000	10,100	10,054	46
Other employer contributions	25,000	30,000	32,378	(2,378)
Memberships, registration fees	1,000	2,000	1,803	197
Utility services	6,000	6,000	4,900	1,100
Telephone	6,000	7,000	8,013	(1,013)
Repair and maintenance services	106,000	191,000	192,603	(1,603)

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)**  
**GENERAL FUND**

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Operating supplies	13,000	13,000	12,099	901
Clothing and uniforms	6,500	6,500	4,594	1,906
Gas, oil and diesel	19,000	19,000	17,623	1,377
Fabricated materials	5,000	5,000	2,993	2,007
Insurance	10,500	10,500	9,465	1,035
Machinery and equipment rental	2,500	3,500	3,018	482
Other machinery and equipment	20,000	15,000	10,946	4,054
Capital outlay	<u>25,000</u>	<u>85,000</u>	<u>83,254</u>	<u>1,746</u>
Total highway and streets	<u>818,500</u>	<u>956,600</u>	<u>835,599</u>	<u>121,001</u>
Parks and recreation:				
Salaries	135,000	135,000	118,669	16,331
OASI	11,200	11,200	8,368	2,832
Hospital and health insurance	21,000	21,000	17,424	3,576
Workmens compensation	2,400	1,800	1,675	125
Postage	500	500	262	238
Other employer contributions	6,000	6,000	6,022	(22)
Contractual services	144,200	148,700	142,954	5,746
Utility services	39,000	39,000	36,240	2,760
Telephone	4,100	4,400	4,698	(298)
Repair and maintenance	39,500	45,000	33,942	11,058
Sundry	1,000	1,000	986	14
Operating supplies	22,200	22,200	15,821	6,379
Gas, oil and diesel fuel	5,000	5,000	6,342	(1,342)
Insurance	7,500	7,500	7,294	206
Other machinery and equipment	18,500	9,000	2,248	6,752
Capital outlay	<u>5,000</u>	<u>-</u>	<u>1,406</u>	<u>(1,406)</u>
Total parks and recreation	<u>462,100</u>	<u>457,300</u>	<u>404,351</u>	<u>52,949</u>
Total expenditures	<u>3,690,050</u>	<u>4,042,794</u>	<u>3,637,377</u>	<u>405,417</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,154,630</b>	<b>1,154,630</b>	<b>2,511,034</b>	<b>1,356,404</b>

*The accompanying notes are an integral part of the financial statements.*



**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)**  
**GENERAL FUND**

For the Year Ended June 30, 2012

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
Other financing sources (uses)				
Operating transfers out	<u>(1,154,630)</u>	<u>(1,154,630)</u>	<u>(1,174,630)</u>	<u>(20,000)</u>
Total other financing sources (uses)	<u>(1,154,630)</u>	<u>(1,154,630)</u>	<u>(1,174,630)</u>	<u>(20,000)</u>
<b>Excess (deficiency) of revenues over (under) expenditures and other uses</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>1,336,404</u></b>	<b><u>\$ 1,336,404</u></b>
Fund balance, July 1			<u>8,263,568</u>	
Fund balance, June 30			<u>\$ 9,599,972</u>	
Reconciliation to fund financial statements:				
Excess (deficiency) of revenues over (under) expenditures - budgetary			\$ 1,336,404	
Revenues and expenditures not included in budgetary statements:				
Sanitation - charges for services and interest			838,386	
Sanitation - expenditures			(816,865)	
Sanitation - operating transfers in			<u>53,615</u>	
Excess (deficiency) of revenues over (under) expenditures - (page 14)			<u>1,411,540</u>	
Fund balance - budgetary			9,599,972	
Assets related to sanitation operations			<u>379,265</u>	
Fund balance - page 14			<u>\$ 9,979,237</u>	

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**STATE STREET AID FUND**  
For the Year Ended June 30, 2012

<b>Revenues</b>	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
Intergovernmental:				
Gas 1989	\$ 24,807	\$ 27,563	\$ 32,919.00	\$ 5,356
Gas 3 cent	46,041	51,157	61,097	9,940
Gasoline and motor fuel tax	154,152	171,280	204,559	33,279
Development bonds forfeited	-	1,045,000	1,045,000	-
Grant revenue	100,000	1,280,765	2,431,593	1,150,828
<b>Total intergovernmental</b>	<u>325,000</u>	<u>2,575,765</u>	<u>3,775,168</u>	<u>1,199,403</u>
Other:				
Interest earned	20,000	35,000	42,693	7,693
<b>Total revenues</b>	<u>345,000</u>	<u>2,610,765</u>	<u>3,817,861</u>	<u>1,207,096</u>
<b>Expenditures</b>				
Current:				
Public works:				
Highways and streets:				
Utilities	290,000	290,000	289,650	350
Repair and maintenance services	135,000	135,000	9,864	125,136
Repair and maintenance - streets	500,000	937,617	889,312	48,305
Gas, oil and diesel	15,000	15,000	12,603	2,397
Grant expenditures	550,000	2,378,148	-	2,378,148
Capital outlay, including grants	355,000	355,000	2,914,139	(2,559,139)
<b>Total expenditures</b>	<u>1,845,000</u>	<u>4,110,765</u>	<u>4,115,568</u>	<u>(4,803)</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(297,707)</u>	<u>1,202,293</u>
Other financing sources (uses)				
Other	398,985	398,985		(398,985)
Operating transfers in	1,101,015	1,101,015	1,121,015	(20,000)
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>823,308</u>	<u>\$ 783,308</u>
Fund balance, July 1			<u>4,742,454</u>	
Fund balance, June 30			<u>\$ 5,565,762</u>	

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
June 30, 2012

	<u>Sewer Fund</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 3,558,972
Investments	3,850,009
Receivables	
Interest	1,108
Accounts	<u>283,311</u>
Total current assets	<u>7,693,400</u>
Noncurrent assets	
Unamortized bond cost	43,333
Capital assets	
Land	231,762
Sewer plant	22,838,230
Construction in progress	303,483
Less accumulated depreciation	<u>(3,198,705)</u>
Total capital assets (net of accumulated depreciation)	<u>20,174,770</u>
Total noncurrent assets	<u>20,218,103</u>
Total assets	<u>27,911,503</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	6,647
Due to solid waste	71,413
Bonds payable	<u>630,000</u>
Total current liabilities	<u>708,060</u>
Noncurrent liabilities	
Bonds payable	<u>9,119,000</u>
Total liabilities	<u>9,827,060</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	10,425,770
Unrestricted	<u>7,658,673</u>
Total net assets	<u>\$ 18,084,443</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2012

	<u>Sewer Fund</u>
<b>Operating revenues</b>	
Sewer service charges	\$ 1,552,198
Surcharges and inspection fees	<u>364,388</u>
Total operating revenues	<u>1,916,586</u>
<b>Operating expenses</b>	
Salaries	88,358
OASI	4,505
Hospital and health insurance	17,424
Workmen's compensation	3,351
Other employer contributions	5,065
Memberships and dues	455
Utility services	161,247
Telephone	3,042
Accounting and auditing	6,994
Other professional services	6,351
Contractual services	65,163
Repair and maintenance services	61,623
Lab costs	10,036
Operating supplies	3,972
Gas, oil and diesel	3,358
Insurance	25,084
Amortization	3,611
Depreciation	<u>628,455</u>
Total operating expenses	<u>1,098,094</u>
<b>Operating income (loss)</b>	<u>818,492</u>
<b>Non-operating income (expense)</b>	
Interest earned	71,372
Interest expense	(36,421)
Sale of equipment	1,594
Debt fees	<u>(61,360)</u>
Total non-operating revenues (expenses)	<u>(24,815)</u>
<b>Change in net assets before contributed capital</b>	793,677
Contributed capital	<u>615,795</u>
<b>Change in net assets</b>	<b>1,409,472</b>
Total net assets, beginning	<u>16,674,971</u>
Total net assets, ending	<u>\$ 18,084,443</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2012

	<u>Sewer Fund</u>
<b>Cash flows from operating activities:</b>	
Cash received from consumers	\$ 1,893,769
Cash received from other funds	5,238
Cash paid to employees for services	(92,863)
Other operating payments	<u>(371,834)</u>
Net cash provided (used) by operating activities	<u>1,434,310</u>
<b>Cash flows from capital and related financing activities:</b>	
Principal paid on debt	(603,000)
Interest and debt fees paid	(97,781)
Cash received in disposal of capital assets	1,594
Construction and acquisition of plant	<u>(12,200)</u>
Net cash provided (used) by capital and related financing activities	<u>(711,387)</u>
<b>Cash flows from investing activities:</b>	
Purchase of investments	(3,850,009)
Proceeds from sale and maturities of investments	3,808,979
Interest and unrealized change in investments	<u>71,372</u>
Net cash provided (used) by investing activities	<u>30,342</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>753,265</b>
Cash and cash equivalents - beginning of year	<u>2,805,707</u>
Cash and cash equivalents - end of year	<u>3,558,972</u>
<b>Cash and cash equivalents:</b>	
Cash and cash equivalents	3,558,972
Restricted cash and cash equivalents	<u>-</u>
Cash and cash equivalents	<u>\$ 3,558,972</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**STATEMENT OF CASH FLOWS (Cont.)**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2012

	<u>Sewer Fund</u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating income (loss)	\$ 818,492
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	632,066
(Increase) decrease in accounts receivable	(22,817)
Increase (decrease) in payables	<u>6,569</u>
Net cash provided (used) by operating activities	<u>\$ 1,434,310</u>
Noncash investing, capital, and financing activities:	
Contributions of capital assets	<u>\$ 615,795</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Arlington, Tennessee (Town) operates under a Mayor-Alderman form of government and provides the following services as authorized by its charter: public safety, street maintenance, sanitation, public utilities and general administrative services.

The accounting policies of the Town conform to generally accepted accounting principles applicable to a government as defined in the *Statements of Governmental Accounting Standards Board (GASB)*. The Town has elected to apply generally accepted accounting principles as defined by *Financial Accounting Standards Board Statements* and *Interpretation Accounting Principles Board Opinions and Accounting Research Bulletins* issued on or before November 30, 1979. After that date, the Town has elected to apply only GASB pronouncements. The following is a summary of the more significant accounting policies.

**A. Reporting Entity**

As required by generally accepted accounting principles, these financial statements present the entire reporting entity of the Town. There are no component units for which the Town of Arlington would be considered financially accountable.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, gross receipt taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial activities of the general government that are not required to be reported in another fund.

The state street aid fund accounts for street and road repair and maintenance

The Town reports the following major proprietary fund:

The sewer fund accounts for the activities associated with the sewage treatment plant, sewage pumping stations and collection system.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expense from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges for services to customers. The sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**D. Assets, Liabilities, and Net Assets or Equity**

***Deposits and Investments***

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition. State statutes authorize the Town to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Investments for the Town are reported at fair value. All investments at June 30, 2012 consisted of certificates of deposits.

***Receivables and Payables***

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Property tax receivables are shown net of an allowance for uncollectible. The allowance is recorded based on the past history of collections.

There is no allowance for uncollectible customer accounts recorded in the proprietary funds, based on past history of collections and management's analysis of current accounts. Bad debts in the proprietary funds are recorded by the direct write-off method.

Property taxes are levied annually on January 1. The taxes are due and payable from the following October through February in the year succeeding the tax levy. An unperfected lien attaches by statute to property on March 1 for unpaid taxes from the prior year's levy. Taxes uncollected by April 1, the year after due, are to be submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment. Shelby County collects all property taxes for the Town and remits them by direct deposit monthly.

***Capital Assets***

Capital assets, including property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 for equipment and \$500 for land, \$5,000 for improvements other than buildings, and \$10,000 for infrastructure and buildings and an estimated useful life in excess of three years. All land, construction in progress, and works of art will be included. The sewer fund uses the same thresholds. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

Capital assets of the Town are depreciated using the straight line method over the following useful lives:

Utility plant	5 - 40 years
Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 10 years
Infrastructure	10 - 25 years

***Deferred Revenue***

Deferred revenue represents amounts that were receivable and measurable at June 30, 2012 but were not available to finance expenditures for the year ended June 30, 2012. Deferred revenues primarily include unearned or unavailable revenues.

***Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Fund Equity***

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Town is to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

**Nonspendable** – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

**Restricted** – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws or externally imposed conditions by grantors or creditors.

**Committed** – Amounts that can be used only for specific purposes determined by formal action by the Board of Alderman ordinance or resolution. To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

**Assigned** – Amounts the City intends to use for a specific purpose that are neither restricted or committed. Intent can be expressed by the Board of Alderman or by an official or body to which the Board of Alderman delegates the authority. No designations have been made at this time.

**Unassigned** – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds, as needed, unless the Board of Alderman or the finance committee has provided other wise in its commitment or assignment actions.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets**

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including notes and leases payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$705,916 difference are as follows:

Compensated absences payable	\$	62,964
Accrued postclosure care costs		<u>642,952</u>
Net adjustment to reduce fund balance - total government funds to arrive at net assets - governmental activities		<u>\$ 705,916</u>

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities**

The reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period." The details of this \$2,089,679 difference are as follows:

Capital Outlay net of contributed capital	\$	3,197,769
Depreciation expense		<u>(1,108,090)</u>
Net adjustment to reduce net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities		<u>\$ 2,089,679</u>

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. These include the general fund and the special revenue funds. The Board

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

of Aldermen approves and appropriates the budgets for these funds annually. All annual appropriations lapse at fiscal year end.

As an extension of the formal budgetary process, the Board of Aldermen may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. The Town's policy is to not allow expenditures to exceed budgetary amounts at the total fund expenditure level without obtaining additional appropriation approval from the Board.

Under TCA 68-211-874, the Town is required to account for its solid waste collection activities in a separate fund. The Town accounts for these activities in a separate sanitation fund which does not qualify as a special revenue fund under generally accepted accounting principles. Accordingly, for fund reporting, the sanitation fund is included as a part of the general fund, but for budgetary reporting is not included as a part of the general fund. Page 20 includes a reconciliation of the general fund budgetary reporting to the general fund reporting on page 14 under generally accepted accounting principles.

For the year ended June 30, 2012, expenditures exceed appropriations in the State Street Aid Fund by \$4,803. These overexpenditures were funded by greater than anticipated revenues in that fund.

**NOTE 4 - DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Investments were made up entirely of certificates of deposits with original maturities greater than three months for the fiscal year ended June 30, 2012.

***Custodial Credit Risk***

The Town's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Town's agent in the Town's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Town to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2012, all deposits were fully collateralized or insured.

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**B. Receivables**

Receivables as of June 30, 2012 for the government's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	State Street Aid	Sewer	Total
Receivables				
Interest	\$ 2,169	\$ 369	\$ 1,108	\$ 3,646
Taxes	2,957,003	-	-	2,957,003
Accounts	54,951	-	283,311	338,262
Intergovernmental	410,098	2,581	-	412,679
Grants	-	140,328	-	140,328
Gross receivables	3,424,221	143,278	284,419	3,851,918
Less: allowance for uncollectibles	(41,251)	-	-	(41,251)
Net total receivables	<u>\$ 3,382,970</u>	<u>\$ 143,278</u>	<u>\$ 284,419</u>	<u>\$ 3,810,667</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Delinquent property taxes receivable	\$ 61,504	\$ -	\$ 61,504
2012 property tax assessment	-	2,774,884	2,774,884
Total deferred revenue for governmental funds	<u>\$ 61,504</u>	<u>\$ 2,774,884</u>	<u>\$ 2,836,388</u>

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,296,762	\$ 75,541	\$ -	\$ 1,372,303
Construction in progress	4,890,081	2,856,968	3,772,802	3,974,247
Total capital assets, not being depreciated, net	<u>6,186,843</u>	<u>2,932,509</u>	<u>3,772,802</u>	<u>5,346,550</u>
Capital assets being depreciated:				
Buildings and improvements	4,544,425	119,431	-	4,663,856
Machinery and equipment	1,554,181	145,829	48,437	1,651,573
Infrastructure	16,917,689	5,245,566	-	22,163,255
Total capital assets being depreciated	<u>23,016,295</u>	<u>5,510,826</u>	<u>48,437</u>	<u>28,478,684</u>
Less: accumulated depreciation for:				
Buildings and improvements	(1,297,582)	(165,239)	-	(1,462,821)
Machinery and equipment	(1,192,520)	(821,653)	-	(2,014,173)
Infrastructure	(1,819,036)	(121,198)	(48,437)	(1,891,797)
Total accumulated depreciation	<u>(4,309,138)</u>	<u>(1,108,090)</u>	<u>(48,437)</u>	<u>(5,368,791)</u>
Total capital assets, being depreciated, net	<u>18,707,157</u>	<u>4,402,736</u>	<u>-</u>	<u>23,109,893</u>
Governmental activities, capital assets, net	<u>\$ 24,894,000</u>	<u>\$ 7,335,245</u>	<u>\$ 3,772,802</u>	<u>\$ 28,456,443</u>
<b>Business-type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 231,762	\$ -	\$ -	\$ 231,762
Construction in progress	291,283	12,200	-	303,483
Total capital assets, not being depreciated	<u>523,045</u>	<u>12,200</u>	<u>-</u>	<u>535,245</u>
Capital assets being depreciated:				
Sewer plant	22,266,720	615,795	44,285	22,838,230
Total capital assets being depreciated	<u>22,266,720</u>	<u>615,795</u>	<u>44,285</u>	<u>22,838,230</u>
Less: accumulated depreciation for:				
Infrastructure	(2,614,535)	(628,455)	(44,285)	(3,198,705)
Total accumulated depreciation	<u>(2,614,535)</u>	<u>(628,455)</u>	<u>(44,285)</u>	<u>(3,198,705)</u>
Total capital assets being depreciated, net	<u>19,652,185</u>	<u>(12,660)</u>	<u>-</u>	<u>19,639,525</u>
Business-type activities capital assets, net	<u>\$ 20,175,230</u>	<u>\$ (460)</u>	<u>\$ -</u>	<u>\$ 20,174,770</u>

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:		
General government		\$ 68,076
Public safety		67,256
Public works		41,863
Street department		851,433
Parks department		79,462
Total depreciation expense - governmental activities		<u>\$ 1,108,090</u>
Business-type activities:		
Sewer		<u>\$ 628,455</u>

**D. Interfund Transfers and Balances**

The composition of interfund transfers as of June 30, 2012, is as follows:

Transfer from	Transfer to	Amount
General	State street aid	\$ 1,121,015
General	Sanitation	53,615
Total		<u>\$ 1,174,630</u>

Transfers are used to move revenues from the fund with collection authorization to the fund in which the related expenditures take place. In this case, funds were transferred from the general fund to the state street aid fund to cover additional capital outlay expenditures. Additionally, funds were transferred from the general fund to the sanitation fund to cover operation expenses.

The composition of due to and due from other funds as of June 30, 2012, is as follows:

Due from	Due to	Amount
General Fund	State Street Aid	\$ 53,008
Sewer Fund	General Fund	71,413
		<u>\$ 124,421</u>

The balance due from the general fund to the state street aid fund is related to transfers to move revenues from the general fund to the fund in which it relates. The balance due from the sewer fund to the general fund relates to collections for sanitation services by the sewer fund.

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**E. Long-term Debt**

Long-term debt at June 30, 2012 is summarized as follows:

Bonds Payable:

Revenue Bonds:

Adjustable Rate Pooled Financing Revenue Bonds, Series 2002  
Tennessee County Loan Pool; the total amount of the  
bond issue is for \$13,000,000; due in annual installments of  
\$484,000 to \$1,023,000 through 2024;  
interest at 0.49% at June 30, 2012

\$ 9,749,000

The following is a summary of long-term debt transactions for the year ended June 30, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Revenue bonds	\$ 10,352,000	\$ -	\$ 603,000	\$ 9,749,000	\$ 630,000
Compensated absences	53,344	9,620		62,964	
Landfill closing and post closing monitoring costs	674,361	-	31,409	642,952	-
<b>Total long-term debt</b>	<u>\$ 11,079,705</u>	<u>\$ 9,620</u>	<u>\$ 634,409</u>	<u>\$ 10,454,916</u>	<u>\$ 630,000</u>

The annual requirements by type of issue to amortize all long-term debt and obligations outstanding, except accrued employee vacation and landfill closing and post-closing monitoring costs, at June 30, 2012, including interest payments of \$335,470, are as follows:

Year Ending June 30,	Revenue Bonds	Interest	Total
2013	630,000	47,770	677,770
2014	659,000	44,683	703,683
2015	688,000	41,454	729,454
2016	719,000	38,083	757,083
2017	752,000	34,560	786,560
2018-2022	4,299,000	114,097	4,413,097
2023-2024	2,002,000	14,823	2,016,823
<b>Total</b>	<u>\$ 9,749,000</u>	<u>\$ 335,470</u>	<u>\$ 10,084,470</u>

**NOTE 5 – OTHER INFORMATION**

**A. Commitments**

The Town closed its solid waste landfill facility in August 1991. State and federal laws and regulations require the Town to place a final cover on the landfill and to perform certain maintenance and monitoring functions at the site for 30 years after closure. All closure activities were complete as of June 30, 1999. Although the remaining costs of monitoring will be paid as they are incurred, generally accepted accounting principles require these costs to be reflected as a liability of the entity owning the landfill as of the date of closure. Accordingly, the Town has recorded these estimated costs as a long-term liability in the government-wide statements. These



**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

amounts are based on what it would cost to perform all postclosure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Expenditures were \$31,409 for the year ended June 30, 2012.

**B. Risk Management**

The Town is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions, workers compensation and automobile physical damage coverage. The Town joined the Tennessee Municipal League Risk Pool (Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League.

The Town pays annual premiums to the Pool for its general liability, auto liability, real and personal property damage, workman's compensation and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The Town's premiums are calculated based on its prior claims history.

It is the policy of the Town to purchase commercial insurance for the risks of employee dishonesty and excess liability. Settled claims have not exceeded this commercial coverage or the coverage provided by the Pool in any of the past three years.

**C. Pension Plan**

Effective on August 1, 2005 the Town adopted a governmental employer sponsored eligible deferred compensation plan titled Town of Arlington 457 Plan. Participants of the Plan must meet the Plan's eligibility requirements. Once an employee becomes a Participant, the Town will maintain an Individual Account for each employee. Each Plan Year, employee accounts will be adjusted to reflect contributions, gains, losses, etc. All contributions made to the Plan on an employee's behalf will be placed in a trust fund established to hold dollars for the benefit of all Participants. Each Participant's Individual Account will be used to track their share in the total trust fund.

For the year ended June 30, 2012, total employer contributions were \$79,364 and employee contributions were \$62,805 based on total covered wages of \$2,009,099.

**D. Operating Lease Commitments**

The Town has entered into operating leases which contain non-cancellation provisions. The annual requirements under these operating leases as of June 30, 2012, are as follows:

Years Ended		Amount
June 30	_____	_____
2013	\$	2,825
2014		2,318
2015		1,837

**TOWN OF ARLINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**E. Contributed Capital**

During the year ended June 30, 2012, the Town received contributed capital totaling \$2,088,559. This amount contains contributions from subdivision developers for streets and sewer infrastructure given to the Town.

**F. Creation of Municipal School System**

On August 2, 2012, a referendum was approved by the electorate of the Town to create a municipal school system to begin operation during the 2013-14 fiscal year. Financing for the school system was also approved by way of a half-cent increase in the local option sales tax in Arlington.. On November 6, 2012 a school board for the municipal school system was elected. On November 27, 2012, a U.S. District Court ruled on constitutional issues related to state statutes which allow for the creation of municipal school systems in Shelby County. The effect of this ruling is unclear except it will defer until at least the 2014-15 fiscal year the ability of the Town to operate a school system. One-half of the local options sales tax increase, if not expended by the city for public education, will be remitted to Shelby County under provisions of state law to be used for public education.

**NOTE 6 – CONTINGENT LIABILITIES**

On May 16, 1997 the Town signed an agreement with Memphis Light Gas and Water Division (MLGW) which included requirement for the Town to reimburse MLGW for certain water system development costs. This reimbursement is made monthly only to the extent that water system development fees are collected by the Town. This continues to accumulate as MLGW incurs development costs plus interest at 6% and is reduced only by the reimbursement from the development fees. The Town has no obligation to pay this liability beyond the amount of development fees collected. The balance of this contingent liability is \$2,066,110.

## **OTHER SUPPLEMENTARY INFORMATION SECTION**

The other supplementary information section of this report includes information not required to be included in the Basic Financial Statements and is provided for the purpose of additional analysis.

**TOWN OF ARLINGTON, TENNESSEE  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
SANITATION FUND**

For the Fiscal Year Ended June 30, 2012

<b>Revenues</b>	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
Charges for services:				
Refuse collection charges	\$ 740,000	\$ 810,000	\$ 835,588	\$ 25,588
Other:				
Interest earned	<u>2,000</u>	<u>2,000</u>	<u>2,798</u>	<u>798</u>
Total revenues	<u>742,000</u>	<u>812,000</u>	<u>838,386</u>	<u>26,386</u>
<b>Expenditures</b>				
Current expenditures:				
Public works:				
Solid waste collection:				
Contracted services	740,000	810,000	808,585	1,415
Landfill closure:				
Professional services	15,475	15,475	7,280	8,195
Repair and maintenance	<u>40,140</u>	<u>40,140</u>	<u>1,000</u>	<u>39,140</u>
Total public works	<u>795,615</u>	<u>865,615</u>	<u>816,865</u>	<u>48,750</u>
Total expenditures	<u>795,615</u>	<u>865,615</u>	<u>816,865</u>	<u>48,750</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(53,615)</u>	<u>(53,615)</u>	<u>21,521</u>	<u>75,136</u>
Other financing sources (uses)				
Operating transfers in	<u>53,615</u>	<u>53,615</u>	<u>53,615</u>	<u>-</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,136</u>	<u>\$ 75,136</u>
Fund balance, July 1			<u>304,129</u>	
Fund balance, June 30			<u>\$ 379,265</u>	

See independent auditor's report.

**TOWN OF ARLINGTON, TENNESSEE**  
**SCHEDULE OF LONG TERM DEBT**  
June 30, 2012

Year Ended June 30,	Revenue Bonds		Total
	Series 2002		
	Principal	Interest	
2013	630,000	47,770	677,770
2014	659,000	44,683	703,683
2015	688,000	41,454	729,454
2016	719,000	38,083	757,083
2017	752,000	34,560	786,560
2018	786,000	30,875	816,875
2019	821,000	27,024	848,024
2020	858,000	23,001	881,001
2021	897,000	18,796	915,796
2022	937,000	14,401	951,401
2023	979,000	9,810	988,810
2024	<u>1,023,000</u>	<u>5,013</u>	<u>1,028,013</u>
	<u>\$ 9,749,000</u>	<u>\$ 335,470</u>	<u>\$ 10,084,470</u>

*See independent auditor's report.*

**TOWN OF ARLINGTON, TENNESSEE**  
**SCHEDULE OF CHANGES IN TAXES RECEIVABLE**  
For the Year Ended June 30, 2012

<u>Tax Levy for Year</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Beginning Outstanding Taxes</u>	<u>Additions and Adjustments</u>	<u>Collections</u>	<u>Ending Outstanding Taxes</u>	<u>Outstanding Taxes Filed With Trustee</u>
2011	\$ 1.00	\$ 2,707,557	\$ -	\$ 2,680,305	\$ 2,573,719	106,586	
2010	1.00	2,677,703	125,869	(17,074)	66,380	42,415	42,415
2009	1.00	2,757,236	48,574	(7,700)	25,317	15,557	15,557
2008	1.00	2,336,905	11,954	2,028	11,227	2,755	2,755
2007	1.00	2,082,027	6,611	-	5,501	1,110	1,110
2006	1.00	1,867,780	2,243	-	1,323	920	920
2005	1.00	1,424,436	4,465	-	-	4,465	4,465
2004	1.00	1,106,070	3,443	-	-	3,443	3,443
2003	1.00	961,344	2,110	-	-	2,110	2,110
2002	1.00	884,166	2,995	-	237	2,758	2,758
			<u>\$ 208,264</u>	<u>\$ 2,657,559</u>	<u>\$ 2,683,704</u>	<u>\$ 182,119</u>	<u>\$ 75,533</u>

Above balances represented as follows:

Considered current receivables	\$ 79,364
Allowance for uncollectible accounts	41,251
Deferred revenue	<u>61,504</u>

182,119

Tax levy due October 1, 2012 considered deferred revenue

2,774,884

Total taxes receivable

\$ 2,957,003

*See independent auditor's report.*

**TOWN OF ARLINGTON, TENNESSEE**  
**SCHEDULE OF UTILITY RATES IN EFFECT**  
June 30, 2012

Sewer Rates

Residential, Commercial and Industrial:

	<b>\$6.99</b>
Each 100 cubic feet	\$2.64 per 100 cubic feet

Industrial Surcharge:

Biochemical oxygen demand from 250mg/l to 1644 lb/day	\$0.25 per pound of BOD
Biochemical oxygen demand from 1644 lb/day to 2000 lb/day	\$0.30 per pound of BOD
Biochemical oxygen demand in excess of 2000 lb/day	\$0.55 per pound of BOD
Suspended solids in excess of 250mg/l	\$0.20 per pound of SS

Number of customers at June 30, 2012:	<b><u>3,856</u></b>
---------------------------------------	---------------------

**TOWN OF ARLINGTON, TENNESSEE**  
**SCHEDULE OF SALARIES AND BONDS OF PRINCIPAL OFFICIALS**  
June 30, 2012

<u>Name</u>	<u>Position</u>	<u>Salary</u>	<u>Bond</u>
Mike Wissman	Mayor	\$ 25,000	\$ -
Catherine Durant	City Recorder and Certified Municipal Finance Officer designate	79,413	-

Unless otherwise noted, all officials served for the entire fiscal year.

The Town has an Errors and Omissions Insurance Policy through TML for coverage of \$2,000,000 per occurrence.



**TOWN OF ARLINGTON, TENNESSEE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
For the Fiscal Year Ended June 30, 2012

<u>Grantor/Pass Through Entity</u>	<u>CFDA #</u>	<u>State Grant Number</u>	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Balance</u>
<b>Federal Assistance:</b>							
United States Department of Transportation/ Tennessee Department of Transportation:							
Highway Planning and Construction	*20.205	070121	(170,631)	(138,119)	308,750	-	-
Highway Planning and Construction	*20.205	110103	-	-	31,763	(41,929)	(10,166)
Highway Planning and Construction	*20.205	110104	-	-	39,951	(47,151)	(7,200)
Highway Planning and Construction	*20.205	090128	(22,733)	(117,647)	140,380	-	-
Highway Planning and Construction	*20.205	090129A1	(171,109)	-	2,134,894	(2,086,747)	(122,962)
Total United States Department of Transportation			<u>(364,473)</u>	<u>(255,766)</u>	<u>2,655,738</u>	<u>(2,175,827)</u>	<u>(140,328)</u>
United States Department of Homeland Security/ Shelby County, Tennessee:							
Urban Security Initiative	97.008	N/A	-	-	5,264	(5,264)	-
Tennessee Emergency Management Agency: Disaster Assistance	97.036	64101-5669	-	-	537	(537)	-
Total United States Department of Homeland Security			<u>-</u>	<u>-</u>	<u>5,801</u>	<u>(5,801)</u>	<u>-</u>
Total Federal Assistance			<u>(364,473)</u>	<u>(255,766)</u>	<u>2,661,539</u>	<u>(2,181,628)</u>	<u>(140,328)</u>
<b>Total federal awards and state financial assistance</b>			<b><u>\$ (364,473)</u></b>	<b><u>\$ (255,766)</u></b>	<b><u>\$ 2,661,539</u></b>	<b><u>\$ (2,181,628)</u></b>	<b><u>\$ (140,328)</u></b>

\* Denotes a major program.

Note 1:

All expenditures reported are under the modified accrual basis of accounting whereby expenditures are recorded when the related liability is incurred.

Note 2:

The amounts presented in the adjustment column represent refunds of rail deposits paid in a prior year. The amounts were reasonably not expected to be refunded when expended. Additionally, grant funding is not affected by these amounts since a request for reimbursement from TDOT was neither applied for nor received.

*See independent auditor's report.*

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance With  
Government Auditing Standards**

Honorable Mike Wissman, Mayor  
Members of the Board of Aldermen  
Town of Arlington, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Arlington, Tennessee (Town) as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the Town in a separate letter dated November 30, 2012.

This report is intended solely for the information and use of management, the Board of Mayor and Aldermen, and the Comptroller of the Treasury, State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PLLC". The signature is written in a cursive, flowing style.

Jackson, Tennessee  
November 30, 2012



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AICPA Employee Benefit Plan Audit Quality Center  
Tennessee Society of Certified Public Accountants  
Kentucky Society of Certified Public Accountants

**Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program  
And on Internal Control Over Compliance in Accordance with OMB Circular A-133**

Honorable Mike Wissman, Mayor  
Members of the Board of Aldermen  
Town of Arlington, Tennessee

Compliance

We have audited the Town of Arlington, Tennessee's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2012. The Town of Arlington, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Arlington, Tennessee's management. Our responsibility is to express an opinion on the Town of Arlington, Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Arlington, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Arlington, Tennessee's compliance with those requirements.

In our opinion, the Town of Arlington, Tennessee, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Town of Arlington, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Arlington, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion

on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Arlington, Tennessee's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Mayor and Aldermen, and the Comptroller of the Treasury, State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PLLC". The signature is written in a cursive, flowing style.

Jackson, Tennessee  
November 30, 2012

**TOWN OF ARLINGTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2012**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements:

Type of auditor's report issued	Unqualified	
Internal control over financial reporting:		
Material weaknesses identified?	_____ yes	_____ X no
Significant deficiencies identified not considered to be material weaknesses?	_____ yes	_____ X none reported
Noncompliance material to financial statements noted?	_____ yes	_____ X no

Federal Awards:

Internal control over major programs:		
Material weaknesses identified?	_____ yes	_____ X no
Significant deficiencies identified not considered to be material weaknesses?	_____ yes	_____ X none reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	_____ yes	_____ X no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ X yes \_\_\_\_\_ no

**TOWN OF ARLINGTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2012**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Prior Year Findings**

None reported.

**Current Year Findings**

None reported.

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Prior Year Findings**

None reported.

**Current Year Findings**

None reported.